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ABSTRACT

Emphasizing developmental problems caused by the rapid population and employment growth in rural America during the 1970's, this document describes social, economic, and governmental trends in rural America and suggests some federal policy choices that might be made in support of rural development. Problem areas and policy suggestions are presented as follows: (1) diversity and isolation cause rural poverty to differ from urban poverty, and policy development must acknowledge this difference; (2) changing patterns in rural growth and settlement necessitate the application of new forms of organization and technology for more effective planning and services in rapidly growing isolated areas; (3) the increasingly nonagricultural character of rural areas effects rural economy (therefore, economic development policy should address the needs of the entire rural population); (4) economic and political natures of local governments must be understood in order to correlate their actions and effectiveness in the framework of federal capacity building; and (5) 1976 analysis of federal spending in rural America illustrates difficulties in assessing the equity of federal spending for rural health, education, and manpower programs. More study is needed regarding urban bias and federal policy for adequate rural programs. (JD)

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SOCIAL AND ECONOMIC TRENDS IN RURAL AMERICA

This paper was prepared for the Domestic Policy Staff, the White House, by Kenneth L. Deavers and David L. Brown of the Economic Development Division, Economic, Statistics, and Cooperatives Service-USDA. Calvin L. Beale, EDD-ESCS, supervised preparation of the maps.

October 1979.

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I. WHY A RURAL POLICY?

The 1970's have been a period of rapid growth and development for many of the cities, smaller towns, and open country of rural America. 1/ Per capita personal income levels in rural areas have risen to 80 percent of those in urban, and large numbers of better rural jobs have been created. In fact, rates of population and employment growth for rural areas have been substantially greater than for urban, often reversing conditions of rural outmigration and economic stagnation. Given this, why is it necessary to have a Federal rural policy?

We think there are several reasons. First, although we are increasingly an urban Nation, 25 to 30 percent of our population continues to live outside these urban places. Too often, our programs, our technologies, our delivery systems, our eligibility criteria, our use of media, etc., are inappropriate for use in rural settings.

Another reason is that rural areas and rural people continue to experience serious development problems. For example:

* The incidence of poverty continues to be significantly higher in rural areas than in urban. Nearly 35 percent of the Nation's poor are rural; and all of the counties which have been among the poorest 20 percent since 1950 are rural. Furthermore, the personal and area characteristics of the rural poor make it difficult for Federal welfare and development programs to reach them effectively.

* Overall, rural people experience poorer health than urban people. For instance, they suffer from a higher incidence of chronic disease, and experience more days lost from work due to illness or incapacity. Also, all of the counties in the U.S. with infant mortality rates at least double the U.S. average are rural. Not surprisingly, by many measures there is also a "shortage" of health services and medical care in rural areas.

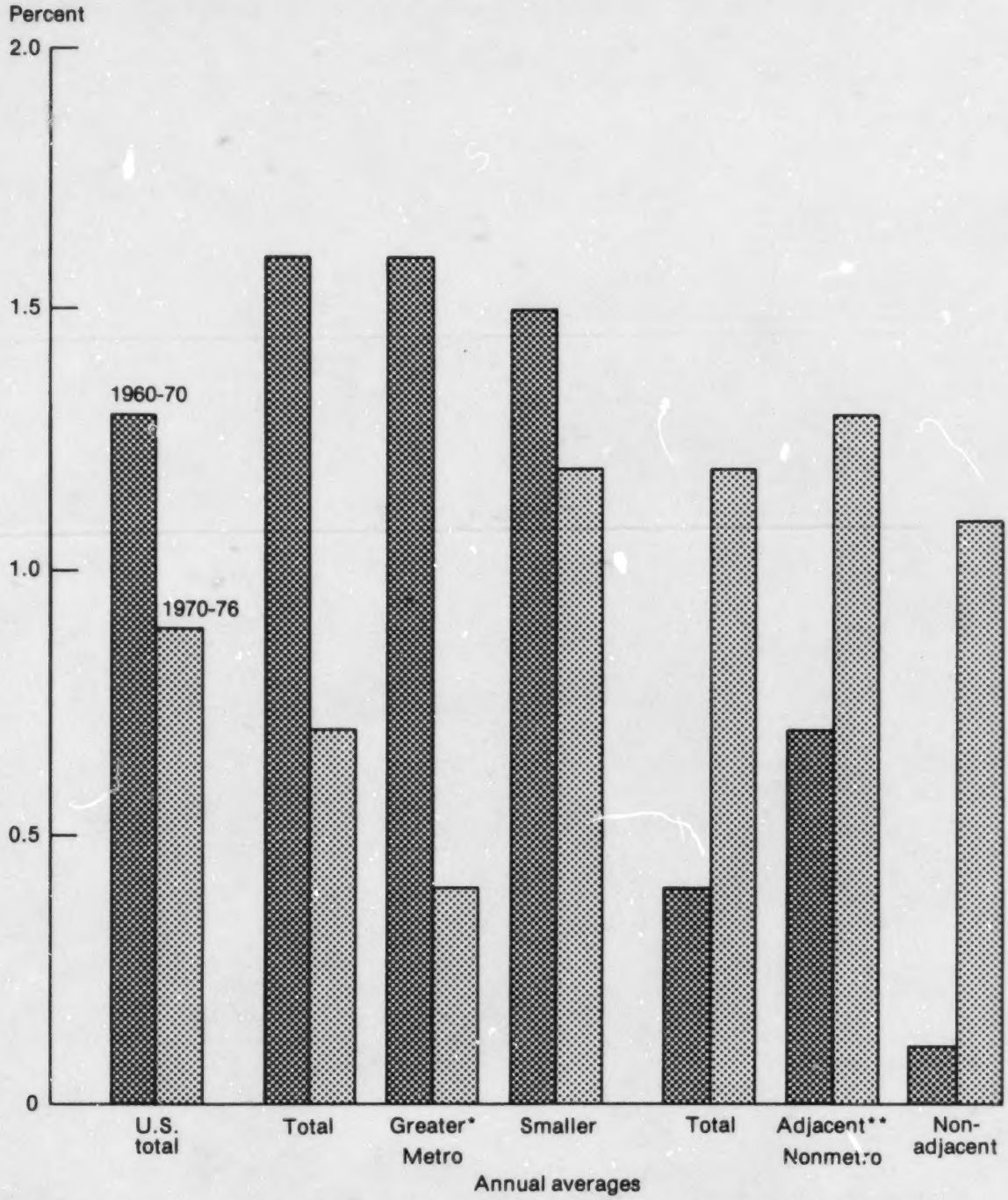
* The incidence of substandard housing (housing that is either overcrowded or lacks some or all plumbing) continues to be more than 3 times as high in rural areas as it is in urban (over 7 percent versus less than 2 percent). While this is a dramatic improvement over conditions only 25 years ago (when 59 percent of rural housing was substandard), 1.9 million rural households still live in housing that is a hazard to health and safety. These housing problems particularly afflict the poor, the elderly, and minorities.

Another reason for rural policy is that America's growth patterns in the 1970's have not been a simple continuation of previous trends. As Figure 1 shows, the largest urban areas, those with a population of 1 million or more, have been growing quite slowly; a number have shown no growth or actually declined in population. Urban growth has been concentrated instead in the small to moderate sized SMSA's, and after decades of population loss rural America has begun to grow. In fact, nearly 40 percent of all U.S. population growth in this decade has been in nonmetro areas.

1/ The terms rural and nonmetropolitan are used interchangeably throughout this document; likewise urban and metropolitan.

Figure 1

Population Change in Metro and Nonmetro Counties



*Standard metropolitan statistical areas with one million or more residents. **Counties adjacent to standard metropolitan statistical areas as defined in 1974. Source: U.S. Bureau of the Census.

More than 4.3 million new citizens have been added to nonmetro areas between 1970 and 1976. Over 2 million of these were inmigrants, most having come from metro areas. This migration turnaround (nonmetro areas lost a net of about 3 million migrants to metro areas in the 1960's) is a significant indicator of the strength of renewed rural growth. Another indicator is that well over 300 nonmetro counties have grown in population in the 1970's by more than 16.7 percent. This rapid rate of growth (over 2.5 percent annually compounded) is similar to the high rates found in many developing countries. Sustaining adequate levels of facilities and services in such rapidly growing areas requires good planning and expeditious decision-making on the part of small local governments. Many of them, however, lack the willingness and/or the fiscal and management capacity to anticipate and adapt to rapid change.

In addition, since the Federal grant-in-aid system often requires technical and "grantsmanship" skills that smaller local governments do not have, these rural areas are often disadvantaged in competition for funds. The problem has been exacerbated in the past few years by the growing importance in Federal programs of formulas for distribution of funds. Current data for many small rural places are not available. Thus, their eligibility typically depends on project-by-project competition for some residual funding, rather than on specific legislated entitlements.

The need for a rural policy is also a result of the fact that Federal attention in the 1970's has been so dominated by urban concerns. With nearly 73 percent of the Nation's population living in metropolitan areas, and over 40 percent in areas with a population of 1 million or more, these places are sufficiently large that their problems attract Federal attention individually, as well as collectively. (See Figure 2 for more detail) However, the concerns of 59 million people in rural America, scattered across the countryside in smaller settlements do not receive much individual recognition. Also, because of their geographic dispersion and diversity, rural people do not represent a well-organized rural constituency. Thus, they lack an effective way to make their common problems known, and to influence Federal policies that affect them.

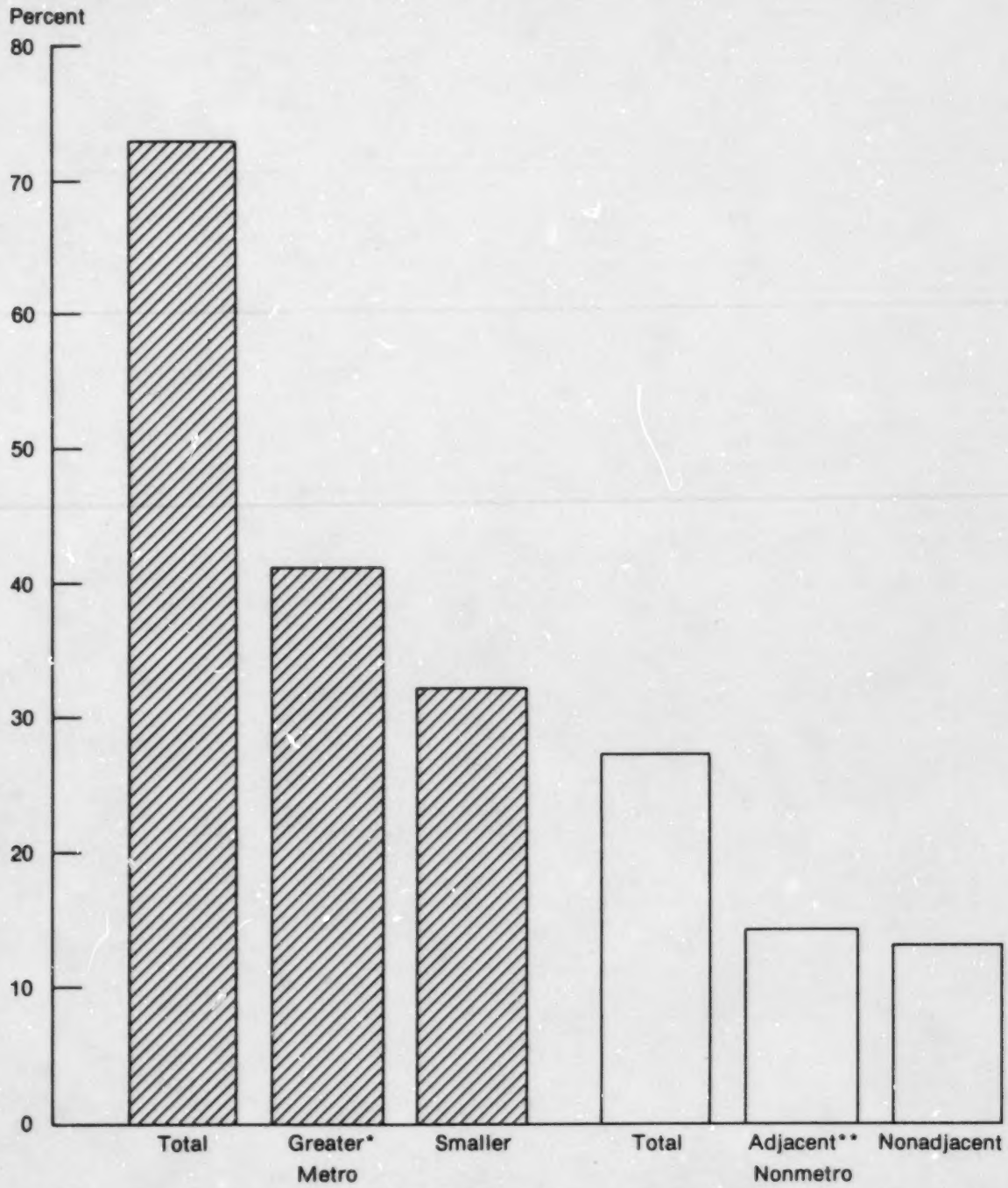
Finally, there is good reason to believe that Americans see the rural community as providing a life style worth preserving. As early as 1948, a National Roper Poll showed that 65 percent of the people preferred a "small city, town, or rural area."

A 1974 sample survey of the U.S. population indicates that significant differences remain between actual and preferred residence for many people. The survey also shows that not everyone preferring to live in a different location would be willing to move if it involves a much lower income, or a long commute (roughly half of those indicating a rural preference would give up that preference in such cases). But, the changing geographic structure of economic opportunity favoring more rural locations, and people's preference for living in such places, make it likely that many people will be able to realize both their lifestyle preference and an acceptable standard of living. The largest losers from such a redistribution of population would be the central cities of the largest and middle-sized SMSA's, although the more rural outskirts of these metro areas (especially those with central cities from 50,000 to 500,000 would grow significantly). Smaller, freestanding cities of 10,000 to 50,000 population would remain relatively stable, and their rural hinterlands would also grow. The most isolated rural settings would change only slightly.

Federal advocacy and conscious direction of a particular distribution of population seem infeasible (and probably undesirable). But, there is mounting evidence that people will move in response to opportunities to achieve their

Figure 2

Distribution of Population by Metro – Nonmetro Residence in 1976



*Standard metropolitan statistical areas with one million or more residents. **Counties adjacent to standard metropolitan statistical areas as defined in 1974. Source: U.S. Bureau of the Census.

preferred residence. It is also clear that these movements differentially affect large and smaller cities, and rural areas. Thus, there is a rationale for the Administration to advocate not only the conservation of America's urban communities, but also rural development.

Clearly, Federal resources will be inadequate to meet the aspirations of all people and places for future development. Even the added spending by States and localities will not make it possible for every rural hamlet to achieve a full range (and urban level) of all public facilities and services, nor for every city to be as uncongested and pristine as the countryside. Thus, many of the costs of exercising their preference for a particular residential location will be borne by individuals. There will be much disagreement about which costs should be private, and which public. Among the latter, there will be considerable debate about the appropriate role for the Federal Government, States and localities. The primary purposes of this document are to describe the rural social, economic, and governmental situation, and to indicate some of the Federal policy choices that might be made in support of rural development.

II. RURAL POVERTY

Poverty continues to be a serious problem for many rural Americans (8.5 million in 1976). However, because rural poverty is often scattered and hard to see (and may even appear "picturesque" to a casual observer), the public's perception of poverty in the 1970's is as a largely urban phenomenon. Nevertheless, the roughly 9 million rural poor constitute 34 percent of the Nation's total poor.

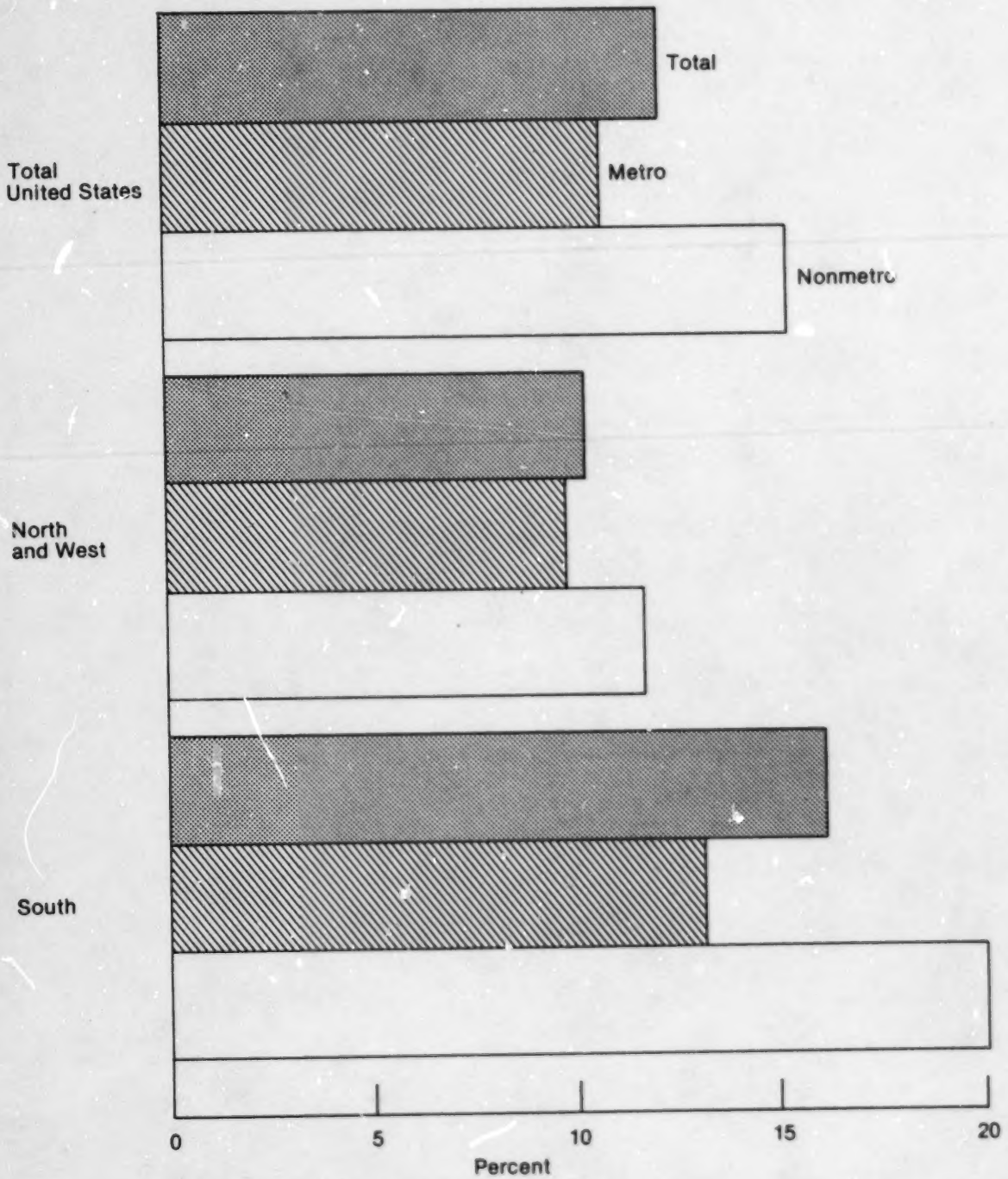
Poverty is not uniformly distributed in rural America. Because of the residence patterns of rural minorities, and historic U.S. economic development patterns, rural poverty is heavily concentrated in the South. (See Figure 3) Nearly two-thirds of the rural poor live in that Region, where over 20 percent of the rural population failed to earn incomes above the poverty level in 1975. The incidence of Southern rural poverty is like that in many large Northern cities; e.g., Detroit, Chicago, Boston, and Baltimore. However, as can be seen from Map 1, there are a number of rural counties in the Northeast with a large poor population.

As in urban areas, poverty falls disproportionately on minorities; 38 percent of rural Blacks (more than 10 percentage points higher than for urban Blacks), and 27 percent of rural Hispanics are poor. This far exceeds the 12 percent poverty of rural Whites. (Although Whites, since they make up a large share of the total rural population, constitute a majority of the rural poor). Indians, especially those on reservations, also are among the rural minorities who are poor.

As evidence of the chronic and persistent nature of Southern rural poverty, 237 of the 255 counties that have fallen into the lowest 20 percent of rural counties by income rank in each decade since 1950 are located in that Region. Also, as can be seen from Maps 2 and 3, there is a close relationship between areas with a concentration of poverty and the residential dominance of minority populations. The exception to this occurs in the Southern Appalachian Cumberland Plateau which is almost exclusively White, but has a long history of physical and cultural isolation, and has been dominated economically by mining, marginal agriculture, and low-wage manufacturing.

Figure 3

Persons in Poverty, 1975



Source: Current population reports, series p-60.

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Map 1

Nonmetro Persons in Poverty, 1970

Persons in Poverty, 1970

● Each dot represents 1,000 persons in households with poverty level incomes. (Poverty levels vary by size and farm residence and by age and sex of head.)

METRO COUNTIES ARE OUTLINED

Source: U.S. Census of Population, 1970

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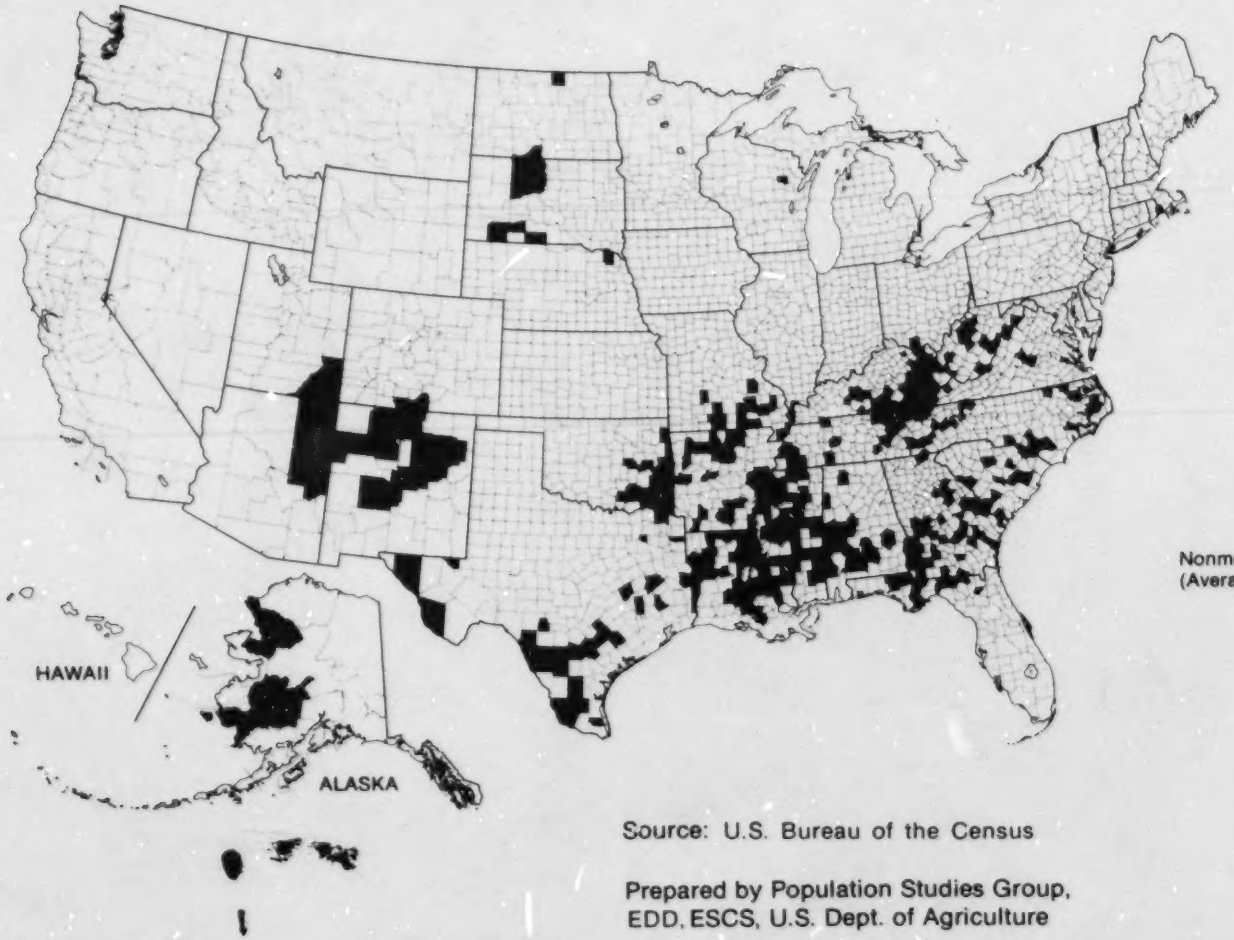
Map 2

Nonmetro Low Income Counties



Nonmetro counties of Low Income
(Average of 1969, 1972, 1974)

Per capita income of less than $2,300

Source: U.S. Bureau of the Census

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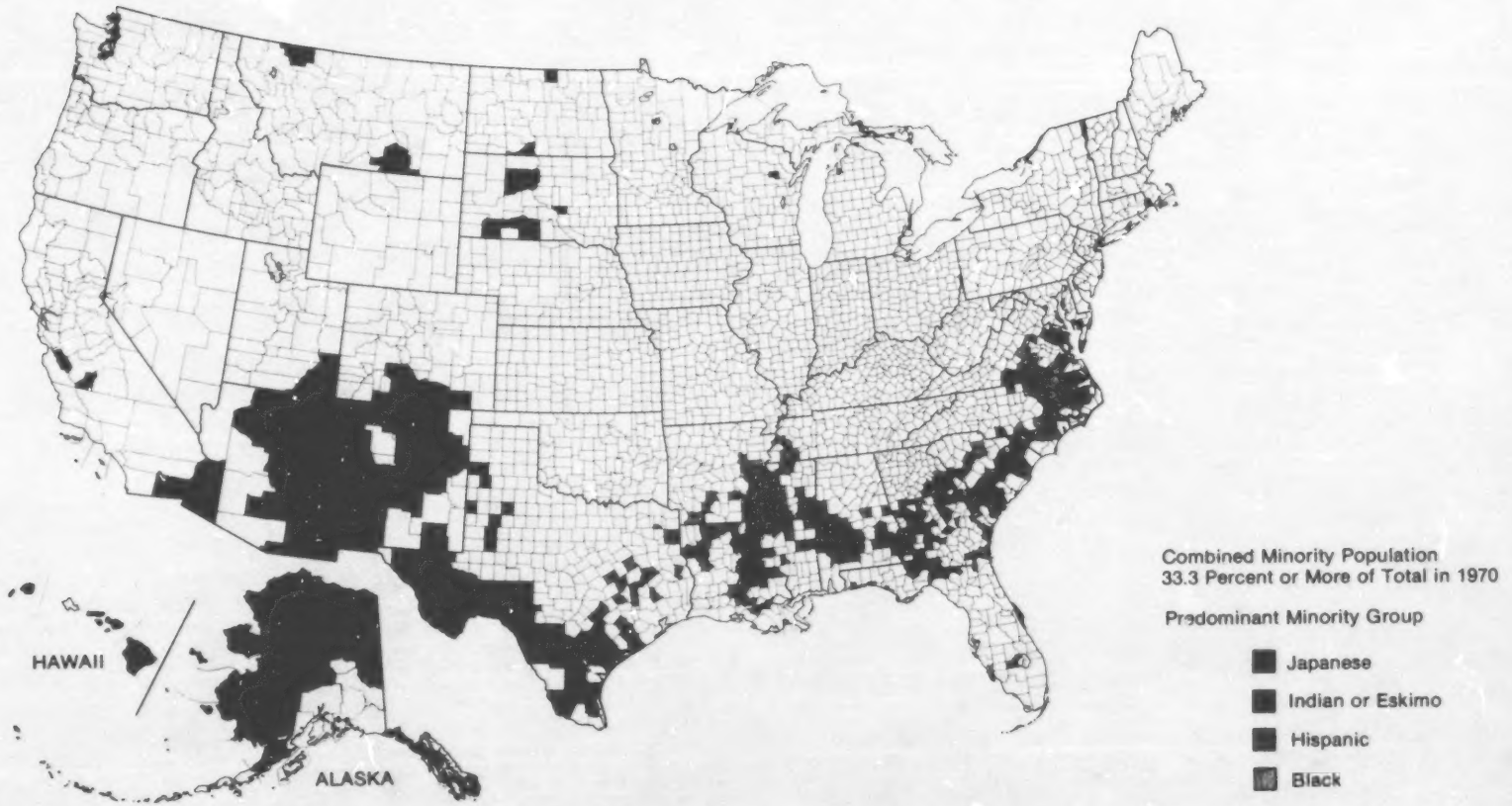
Map 3

Concentration of Nonmetro Racial Minorities, 1970



Source: U.S. Census of Population, 1970

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Differences Between The Urban And Rural Poor

While urban poor families are often headed by females or unemployed workers or by persons who are not in the labor force, this is not true of the rural poor. (See Figure 4) Poor rural families are often active in the labor force. Indeed, 25 percent are headed by a full-time worker, and almost one-third have two or more workers in the family. In contrast, only 16 percent of urban poor families have two or more workers, and almost half have no workers at all. Thus, rural poverty is often not the result of unemployment. Rather, it reflects the relatively low level of wages or the part-time nature of many jobs available in rural labor markets. This, in turn, is often a function of limited skills and training or inadequate education.

Concentrations Of Poverty And Other Indicators Of Disadvantage

Poor people in rural America suffer many forms of disadvantage--poor housing, low educational attainment, few marketable vocational skills, poor health, and physical isolation. The incidence of rural disadvantage is highest in the hundreds of rural counties that have suffered from persistent disadvantage for several decades. These areas often lack enough local resources to support needed facilities and services; communities in these areas chronically underinvest in human capital--inadequate educational opportunity and poor health conditions are continuing problems. As a result, they come up short on basic community facilities and amenities that are often found in more prosperous rural areas--poor housing, lack of public water and sewer systems, inadequate fire protection and emergency medical service, and other such conditions are prevalent.

Historically, outmigration has been high in these severely disadvantaged areas. Often, however, even the outmigrants have been unable to separate themselves from the problems they left; suffering in their new areas from the results of poor education and the absence of relevant job skills. Thus, the chronic underinvestment in human and community resources in poor rural areas constrains many individuals from escaping poverty.

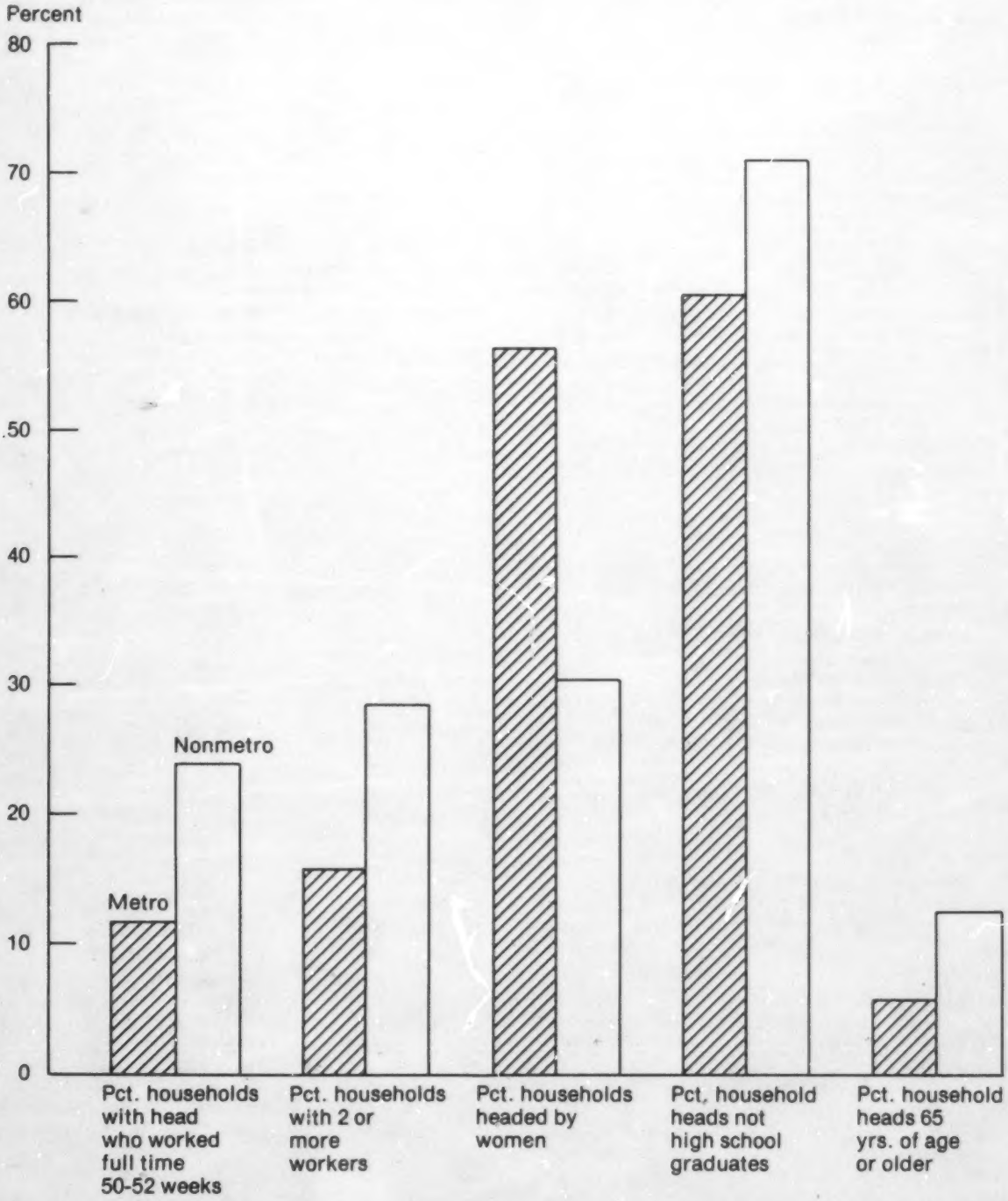
Policy Implications

Low income people and communities are one possible focus for rural policy. However, policy must be based on recognition that rural poverty differs from that in urban areas in some fairly fundamental and important ways. At the community level, where low personal and family income are so endemic as to be reflected in areawide data, the rural poor are often located in environments which lack adequate human and community facilities, which are isolated from other areas with such facilities, which lack a wide range of employment opportunities, and where institutional capacity -- particularly governmental--is unable or unwilling to provide support. Furthermore, years of outmigration has complicated the problem of designing programs to assist many such areas, since the age structure and other characteristics of the local population may make public or private development efforts appear to be a very high risk activity.

All of the welfare reform proposals considered in recent years would have established national minimum payment standards. They would also have made numerous changes in asset qualification requirements, assumptions about family status and labor market status that would have benefited rural residents. Thus, for many of the rural poor, especially in chronically disadvantaged areas of the South, welfare reform is a key element of Federal rural policy. No other single policy action would have as immediate and obvious consequences for their well-being--in terms of their ability to obtain the goods and services essential to a decent level-of-living.

Figure 4

Comparative Profile of Poor Households in Metro and Nonmetro Areas, 1975



Source: U.S. Bureau of Census.

At the individual or family level, policy needs to recognize that the low income position of many rural people is not the result of unemployment. Rather, it results from the types of jobs available in rural labor markets, a lack of appropriate skills and training for better jobs, a lack of transportation access to take advantage of opportunities, and chronically poor health. Thus, governmental activity designed to assist the rural working poor must be more than income support.

III. CHANGING RURAL GROWTH AND SETTLEMENT PATTERNS

The period since 1970 has been marked by a striking revival of population growth in rural and small town America. Whereas 3 million more people moved out of such nonmetro areas than into them from 1960-70, there was a net inmovement of 2.25 million from 1970-76, that probably had grown to 3 million by 1978.

Reduced outmovement from farms, increased rural mining, manufacturing and service employment, increased rural retirement, longer distance job commuting, and a strong residential preference for rural/small town living have all contributed to this trend. But the speed, persistence, and widespread nature of the trend have surprised nearly everyone.

Rapid Growth

The map of nonmetro population change since 1970 (See Map 4) shows nearly 350 nonmetro counties (containing 8.5 million people) that grew by one-sixth (16.7 percent) or more from 1970-76. This is fully three times the growth rate of the U.S. as a whole; nearly 2.5 percent annually compounded.

Rates of growth this high are typically associated with developing Nations, although there they result from high birth rates, not migration. In the U.S., only in Alaska and some of the Indian and Hispanic areas of the Southwest is the observed rural growth significantly influenced by high fertility.

Rates of growth of over 2.5 percent annually are generally more rapid than local governments can cope with effectively in terms of facilities and services; e.g., water and sewer, school systems, land use planning, services for the elderly, and other government functions. But the current situation contains an additional stress on these local governments--many of the people who are making demands for expanded facilities and services are recent inmigrants. Often the migrants bring with them a set of values and expectations that is at odds with the local community. In many cases, what these new residents want is the "urbanization" of rural places. Local governments, in contrast, are more often geared to forestalling this process.

Rapid growth counties are especially common in the West (including Alaska and Hawaii), and to a lesser extent in the Ozarks, Florida, and Northern Michigan. The circumstances are varied. Many reflect the growth of rural industry, such as mining (e.g., Wyoming, Utah), retirement (Florida), recreation and manufacturing (the Ozarks, Michigan). Still others reflect the movement of people for residential preference reasons into certain attractive rural areas, in spite of the absence of much new employment opportunity (e.g., Northeast Washington or Southwest Oregon). The rapid growth counties average 25,000 people each, which is a bit larger than the average of all nonmetro counties.

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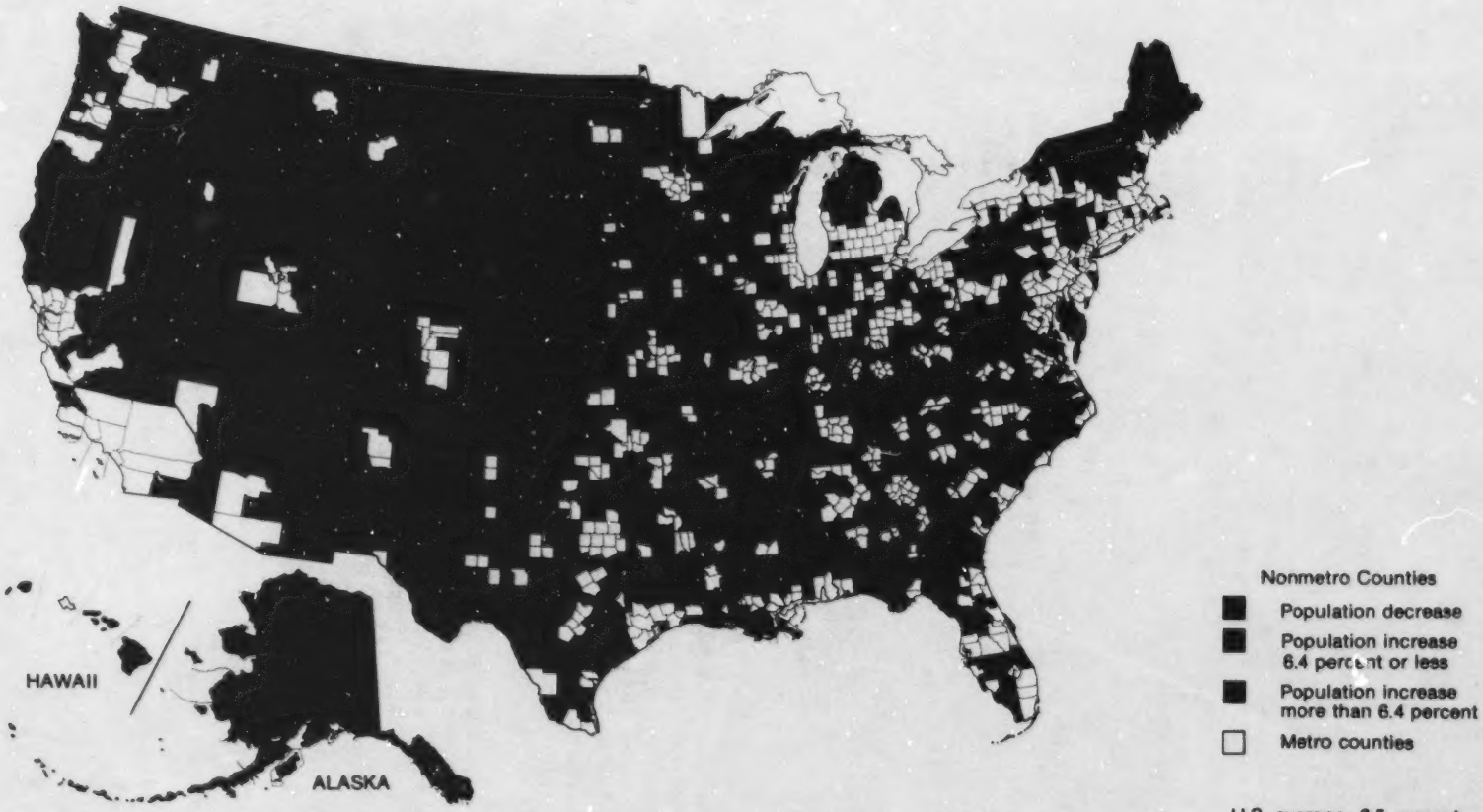
Map 4

Population Change for Nonmetro Counties, 1970-1977



U.S. average: 6.5 percent

Source: U.S. Bureau of the Census - State Cooperative Population Estimates Series.

Prepared by Population Studies Group, EDD, ESCS, U.S. Dept. of Agriculture

Rural Decline

At the opposite end of the distribution, there are more than 500 nonmetro counties that are declining in population because people are still moving out. This group has about 8 million population. The counties are concentrated in areas of high dependence on farming in the Great Plains (both North and South) and the Corn Belt, plus areas with sizable proportions of Blacks in the Mississippi Delta and other scattered parts of the lower South. Usually they are not declining as rapidly as in the past, but the setting is one of contraction and adjustment to limited job opportunities. The declining counties in the Great Plains and Corn Belt are not poor counties in per capita income terms.

Population Turnaround

Intermediate between the demographically booming and declining counties are those with slow and moderate growth that have about seven-tenths of the nonmetro population. Roughly half of these are "turnaround" areas that declined in the 1960's (and often in the 1940's and 1950's as well) but are now growing. Some hundreds of them dot the Western part of the Great Plains, the Coastal Plain of the South, and the Southern Appalachian Plateau Country. The reversal is generally good news for them, but many local institutions and governments are not well equipped to handle the consequences of growth after decades of decline.

One feature that characterizes many of the decline and turnaround counties of the Plains and Midwest is a high proportion of older people, stemming largely from the prolonged past outmigration of young Whites. (See Map 5) Numerous counties now have one-sixth or more of their population at age 65 and over, with the proportion reaching one-fifth in many of them. This circumstance is clearly associated with special needs and difficulties in services for the elderly, often accompanied by local tax base problems. In addition, scores of other rural counties are acquiring high proportions of older people through movement of retired people, often locating in areas of traditionally low income and limited services (e.g., the Ozarks, Texas Hill Country). This becomes an important national issue as the disparity between nonmetro and metro areas in the percentage of older people grows, reflecting the decision of more and more such people to retire in rural areas and small towns.

Access Of Nonmetro People To Urban Centers And Services

By their nature, dispersed rural populations are not as close to urban services as are city people. But the extent to which this is true varies widely from one part of the U.S. to another--as is true of other factors that have been examined. The location of urban centers and the accessibility of rural people to them is illustrated in Map 6.

More than one-fifth of nonmetro counties contain small cities of between 10,000 and 50,000 people. Such cities normally have a rather full range and choice of services (shopping, professional, financial) and also provide employment for many rural people--one-half of the nonmetro total. They are especially prevalent in the Eastern half of the Nation and on the Pacific Coast. Adjoining them are other counties that have convenient access to them.

Still other nonmetro counties are effectively adjacent to metropolitan centers (cities of 50,000 people or more) and their residents often use the facilities in those places. Such nonmetro counties are rural in appearance and in land use, but may have 10 to 25 percent of their workers commuting daily to the city to work. They, too, are concentrated in the Eastern half of the country and have more than 9 million people.

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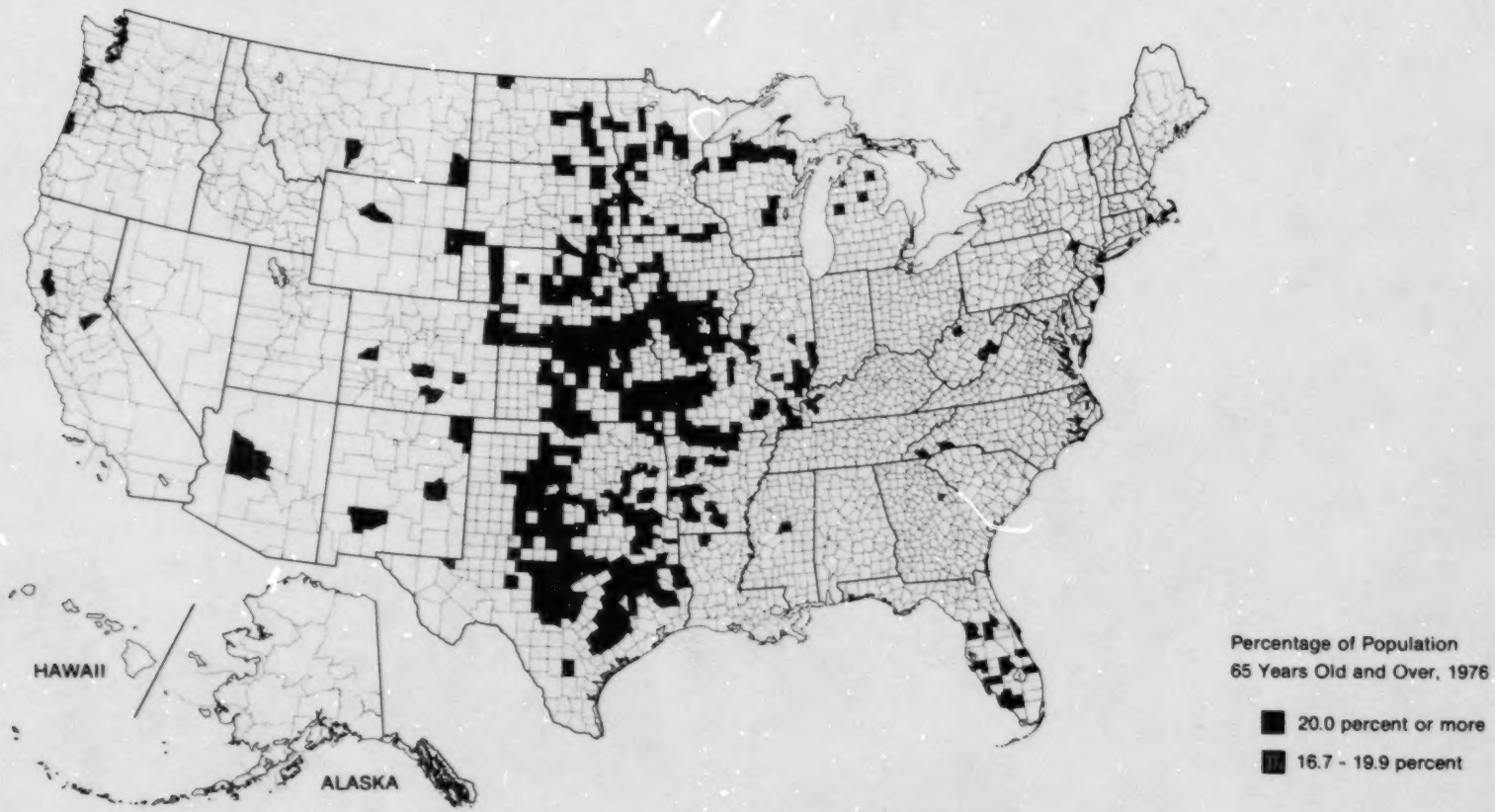
Map 5

Nonmetro Counties with High Percentage of Older Population, 1976



Source: Administration on Aging

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EDD, ESCS, U.S. Dept. of Agriculture

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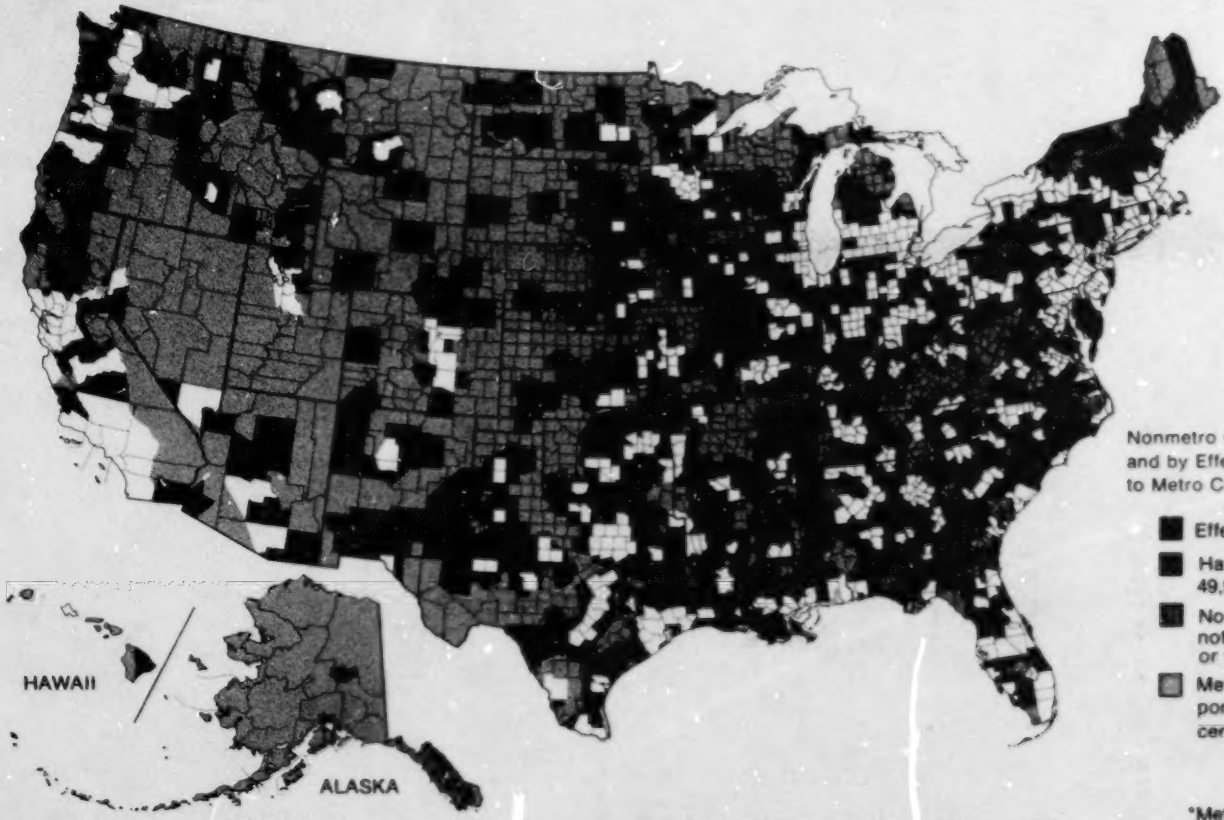
Map 6

Nonmetro Area by Accessibility to Metro Centers and Small Cities



Nonmetro Counties by Presence of Small Cities and by Effective Adjacency to Such Cities or to Metro Centers*

- Effectively adjacent to metro centers
- Have small cities of 10,000 - 49,999 population
- No place of 10,000 population and not effectively adjacent to such cities or to metro centers
- Metro counties are not colored, except portions that are remote from population centers.

*Metro status as of 1974; small city population as of 1975

Source: U.S. Census of Population, 1970

Prepared by Population Studies Group, EDD, ESCS, U.S. Dept. of Agriculture

In striking contrast, there is a class of counties that have no town of 10,000 population and that are not readily and inexpensively convenient to either the larger nonmetro cities or to metropolitan centers. These mostly rural and remote counties are largely in the West (but not the Pacific Coast). However, smaller groups of them are found in the Ozarks, the Southern Appalachians, and the Upper Great Lakes. About 600 counties with a population of approximately 6 million are entirely or largely in this group. At the extreme of this group are a number of settled areas in the Plains, the Great Basin Country, and Alaska that lie more than 100 miles from the nearest place of 10,000 people.

Policy Implications

Comparison of the maps of growth trends and accessibility shows that many of the counties lacking urban centers or access are among the most rapidly growing. They are the least well equipped by previous experience, or existing capacity, to provide the planning or services required to handle growth in an effective way. Some areas may not lack for tax base to support new facilities and services, especially where new mining or industrial developments are present. Although even here the situation differs among areas--there may be a lag between the need for more facilities and services and the increased local revenues to support such activity. Many other areas lack any important new sources of revenue, despite their growing population.

For more than 20 years we have thought about rural development policy primarily as a response to population decline and economic stagnation. But, it is becoming clear that rapid unanticipated growth can also create problems for rural areas. In both cases, local institutions are called upon to adapt to the changing size and composition of the community's population and economic base. In some ways adjustment to growth may be more difficult because traditional community values and individual lifestyles may experience the most significant strains. Thus, rural growth is a possible new focus for rural policy in the 70's.

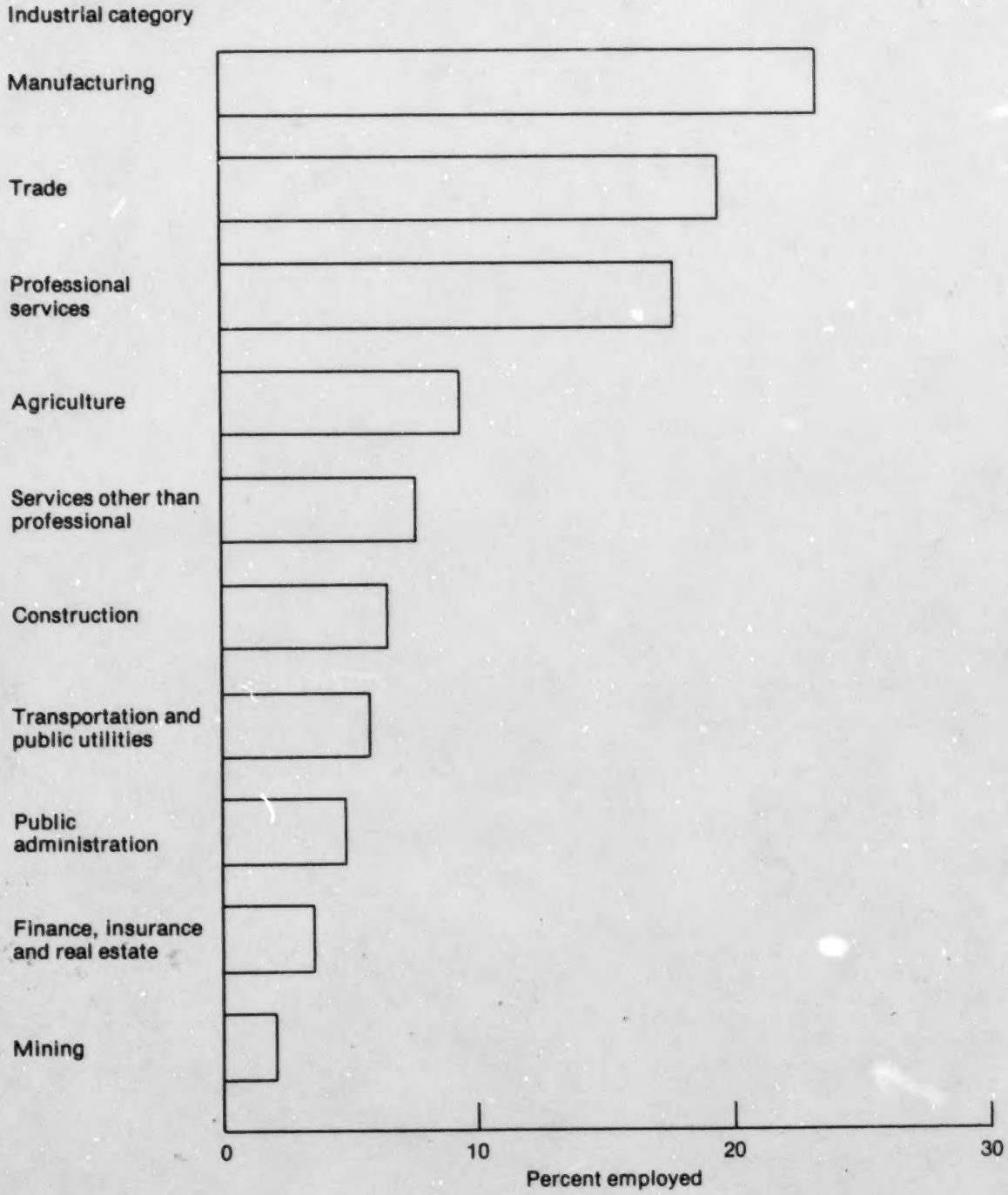
Overcoming the disadvantages of physical isolation and low population density is still another possible focus for rural policy. The application of new forms of organization and technology--transportation, communication and telecommunication--can contribute to alleviating conditions of isolation. Furthermore, Federal assistance may help to make available the skills, experience, and fiscal resources necessary to deliver services to a low density population, especially if there is a national commitment to maintaining options for this lifestyle. In any case, one might expect Federal policy not to make it any more difficult for individuals to choose such remote residential locations than in the absence of governmental action.

IV. RURAL EMPLOYMENT/INCOME

People in rural America make their living from a wide-ranging set of activities not unlike those of urban Americans. (See Figure 5) In March 1975, 21.6 million nonmetropolitan residents were employed. By major industry group, the largest number of these (5 million) worked in manufacturing, followed by 4.2 million in wholesale and retail trade and 3.8 million in professional services, such as health, education, business, and repair services. Only 2.0 million worked solely or primarily in agriculture (including forestry and fisheries). Thus, just 9 percent were in agriculture compared with 23 percent in manufacturing.

Figure 5

Industrial Composition of Nonmetro Workers, 1975



Source: U.S. Bureau of the Census.

As with other rural conditions, there are important regional variations. For example, there are many rural counties in which agriculture continues to be the principal economic activity, and where the vitality and viability of local communities is determined largely by the course of farming. As of the 1970 Census, there were 331 counties, concentrated primarily in the Great Plains and Central and Western Corn Belt, in which 30 percent or more of total employment was in agriculture. Such counties tend, after decades of farm consolidation and outmigration, to be thinly populated--typically averaging only 10,000 people. On the whole these counties are not poor, nor do many of their citizens suffer from substandard housing. However, in many cases access to urban-based services is difficult, e.g., access to health care can be an especially serious problem for an often aging population.

Workers employed in agriculture	Counties	Population	
		------Number and Percent-------	
All nonmetro counties 1/	2,469	54,424,000	100.0
30 percent and over	331	2,059,000	3.8
20-29 percent	372	4,664,000	8.6
10-19 percent	724	13,295,000	24.4
Under 10 percent	1,042	34,407,000	63.2

1/ Nonmetropolitan as of 1974.
Source: 1970 Census of Population.

In 1970 more than 1,000 rural counties had less than 10 percent of their employment in agriculture. As a group, these counties contain 64 percent of the nonmetro population, averaging 35,000 people each. Despite the overwhelming importance of nonagricultural industry in such areas, some also have a prosperous agriculture which utilizes most-of the land. In these areas, changes in farm prices, farm incomes, and farm policy leave the majority of the population untouched.

There are regional variations in the importance of nonagricultural activity as well. The dominance of manufacturing as the principal source of rural employment occurs primarily in the South and East, with a scattering of manufacturing counties in Michigan, and also Washington and Oregon. (See Map 7) Predominant in the West are rural counties with a service based economy; including professional and business services, finance, insurance and real estate, and public administration.

As rural areas have become more like urban areas in the kind of economic activity that goes on, they have also become more like urban areas in their susceptibility to recession. While the problems of the cities during the recession of 1974-75 were well publicized, it is less well known that the overall unemployment rate for nonmetro areas actually exceeded that for metro areas at the peak of the recession. Nearly 400,000 jobs were lost overall in nonmetro areas during this recession; manufacturing itself lost over 700,000 jobs, which was only partially offset by other gains.

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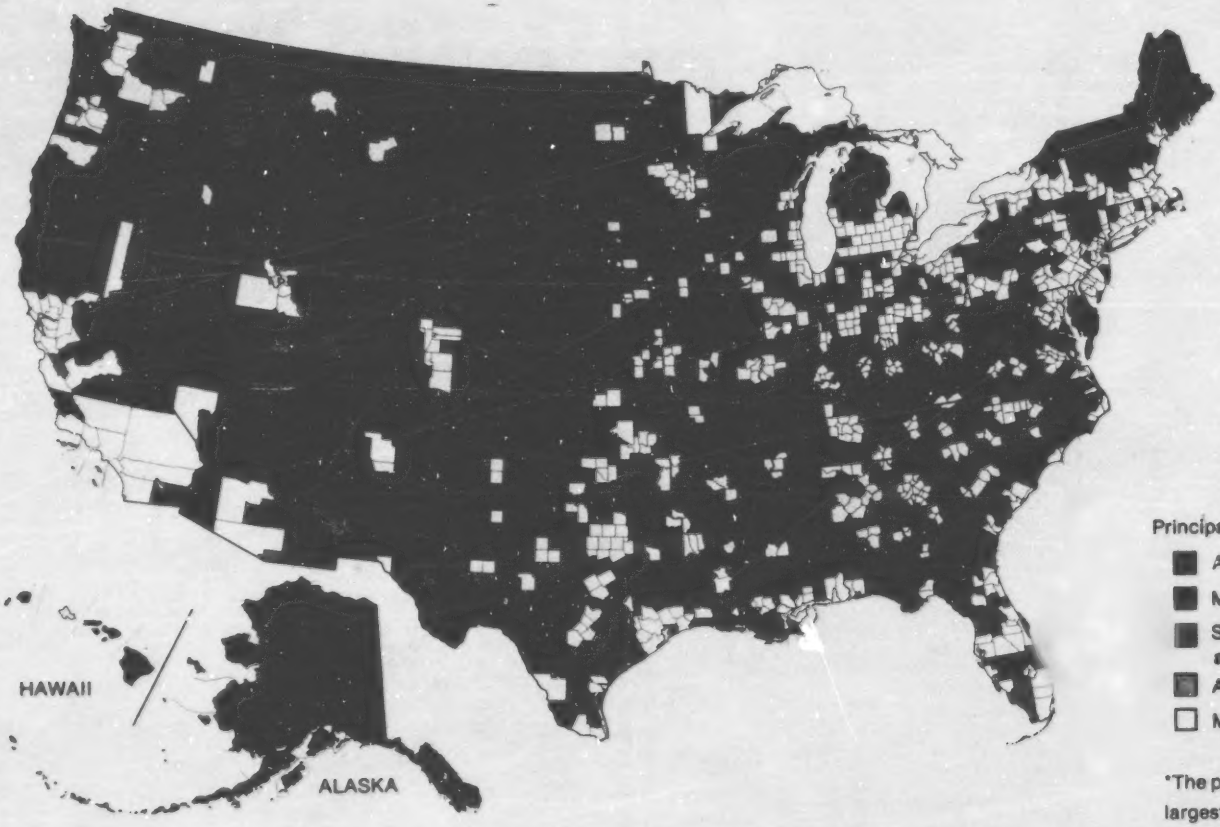
Map 7

Principal Industry of Employment in Nonmetro Counties, 1970



Principal Industry of Employment, 1970*

- Agriculture
- Manufacturing
- Services (except domestic servants) and Public Administration
- Any other or diversified
- Metro counties

*The principal industry is one with the largest employment and at least 25% of total employment. Counties with no industry employing 25% or more were coded "diversified."

Source: U.S. Census of Population, 1970

Prepared by Population Studies Group, EDD, ESCS, U.S. Dept. of Agriculture

The significant movement of people into rural and small town communities in the seventies has added to the diversity of rural pursuits. (See Figure 6) The largest groups of newcomers were supplying professional services (23 percent), followed by work-in-trade (21 percent) and manufacturing (18 percent). Note that the order of employment in the three leading categories for recent inmigrants is the reverse of the order for these same categories among all nonmetropolitan workers. The newcomers are less likely to go into manufacturing and more likely to be involved in professional services. This mirrors the trend in overall rural employment during the seventies. Secondary industries such as wholesale and retail trade, finance insurance and real estate, and service together accounted for over 60 percent of all rural employment growth.

One striking statistic about rural areas, reflecting the importance of general Federal programs and policies and population movement to their economic well-being, is that net transfer payments were the largest source of nonmetro personal income growth in the early seventies. Transfer payments increased from 8.4 to 13.1 percent of total personal income in nonmetro areas during the period. (See Map 8) Growth in transfer payments was particularly important in the South, Appalachia, and the Ozarks--especially in those rural areas which have experienced chronic underdevelopment. This includes nearly all of the Indian reservations. In addition, however, rural areas which have grown significantly due to retirement are affected by changes in the level of transfer payments (principally Social Security). Thus, many rural counties in Northern Michigan, Wisconsin, and Minnesota, as well as rural New England and Florida show a dependence on net transfer payments.

Policy Implications

In sum, the structure of nonmetro employment has become increasingly diverse and decreasingly agricultural. Regional differences are very pronounced and the current movement of people and employment into nonmetro territory is accelerating the changes that were already so noticeable in recent decades. The precise policy implications of these shifts are not self evident, but the increasingly nonagricultural character of the rural economy is clearly at the heart of the population turnaround in recent years, and it presents a different setting for development and employment policies than would have been the case earlier. An economic development policy intended to address the needs of the entire rural and smalltown population will not succeed today if focused primarily on farming and agribusiness.

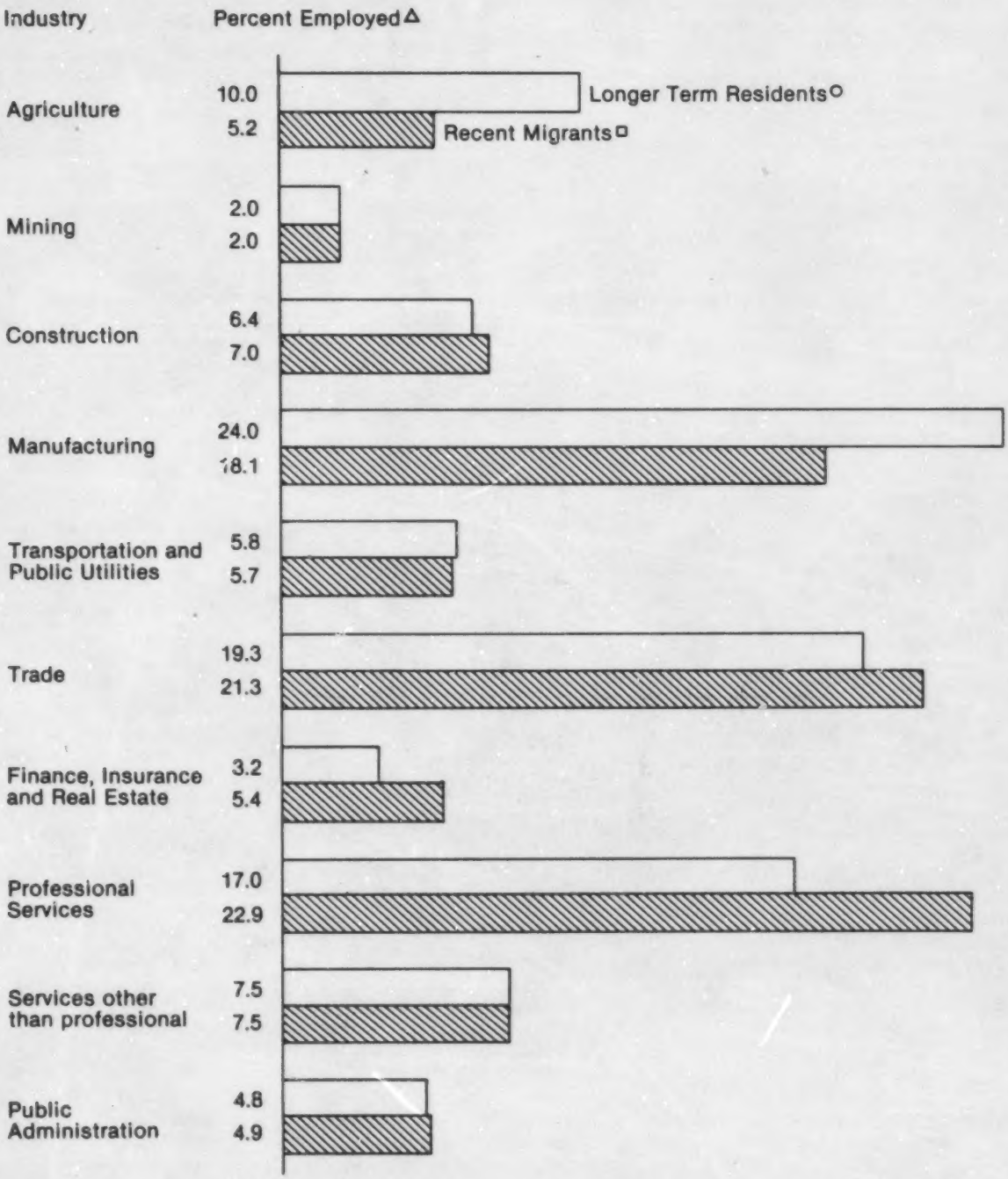
V. LOCAL GOVERNMENT CAPACITY

Problems of rural governments are a key reason cited by rural interests as requiring a Federal rural policy. "Capacity building" has become the jargon to describe a range of proposed Federal responses, some of which would provide more money to existing local governments, some of which would increase the role of quasi-governmental organizations such as multi-county planning and development districts, and still others of which would provide funds to local non-governmental public interest groups. In each case, the Federal action would be directed toward assisting communities in planning for and adapting to rapid social, economic, and demographic change, and to increasing their ability to deliver (essential) services in rural areas.

At least four dimensions of local government are relevant in assessing the current capacity of rural governments, and in gaining insight into the likely impact of Federal efforts at capacity building. They are: size of rural commu-

Figure 6

Industrial Composition of Nonmetro Workers by Length of Residence, 1975■



■ Nonmetropolitan as of 1974. △Civilians 16 years old and over. ○ Nonmetropolitan residents in both 1970 and 1975.
□ Nonmetropolitan residents in 1975 who lived in metropolitan areas in 1970. Source: U.S. Bureau of the Census.

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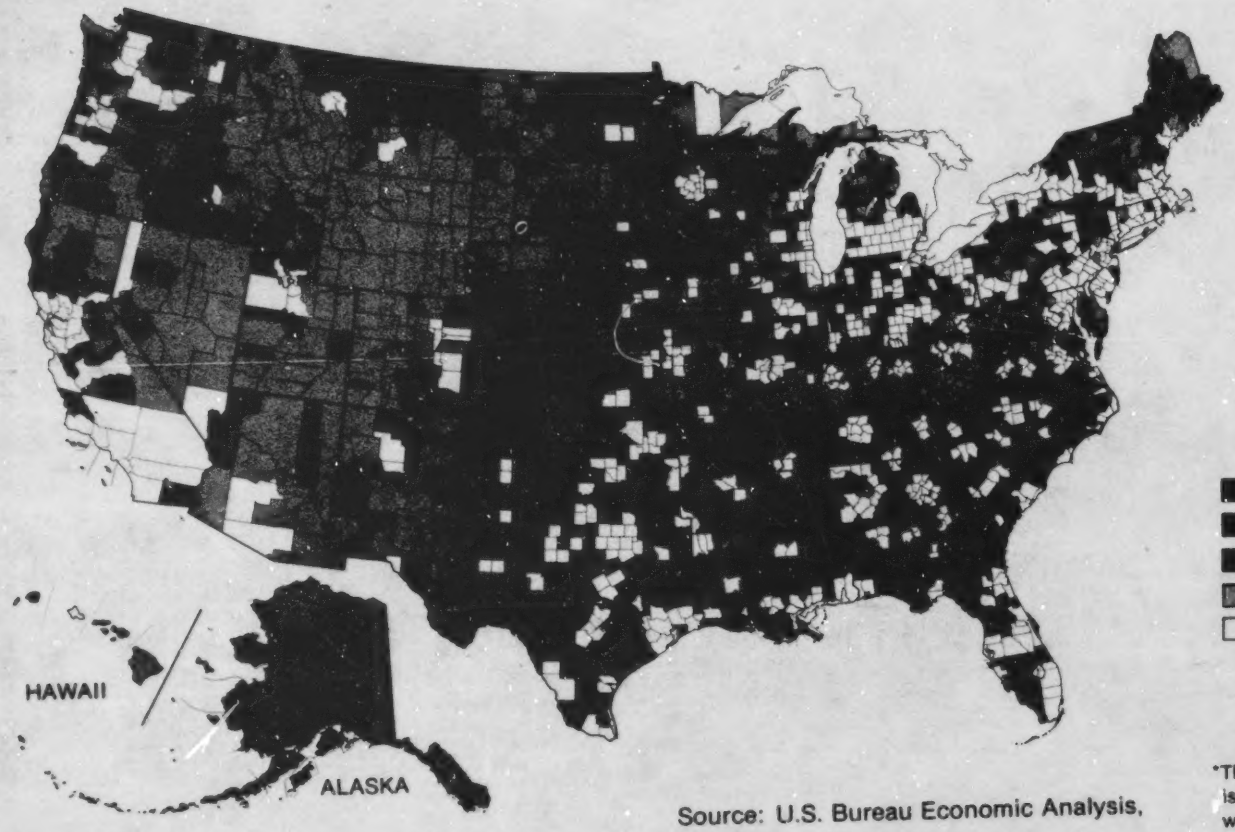
Map 8

Major Sources of Nonmetro Income Growth, 1968-75*



- Agriculture, forestry, and fisheries
- Manufacturing
- Net transfer payments
- All other sources of income
- Metro counties

*The major source of income growth is that component of personal income which had the largest dollar increase between 1968 and 1975.

Source: U.S. Bureau Economic Analysis, U.S. Dept. of Commerce

Prepared by Regional Analysis Group, EDD, ESCS, U.S. Dept. of Agriculture

nities served, rural government fiscal position, internal organization, and political and administrative style.

Size of population served: The vast majority of rural governments serve very small communities. (See Figure 7) For example, nearly 90 percent of municipalities in nonmetropolitan counties (in which 11.1 million people live) have populations of less than 5,000 and only about 5 percent of nonmetro municipal governments serve populations of 10,000 or more. (See Figure 8) The very small scale of these communities means that many do not have a sufficient population base to support demands for an ever growing array of "essential" public services. Although other factors are also important, size of delivery system is a basic determinant of per unit costs and therefore of economic feasibility. This is particularly true of sewage disposal, water, refuse collection and highways; and to a lesser extent of fire and police protection, and education. The problem is often aggravated by Federal (and State) programs which mandate performance standards based on best-available-technology, often requiring capital intensive projects which smaller communities are hard-pressed to finance and maintain. Furthermore, many rural interests assert that these performance standards are unrealistic for rural communities, and unrelated to the perceived needs or expectations of rural citizens for such services.

Even the cost of government itself is often higher in small areas because of the overhead of maintaining traditional local government offices such as the county board, auditor, treasurer, assessor and tax collector.

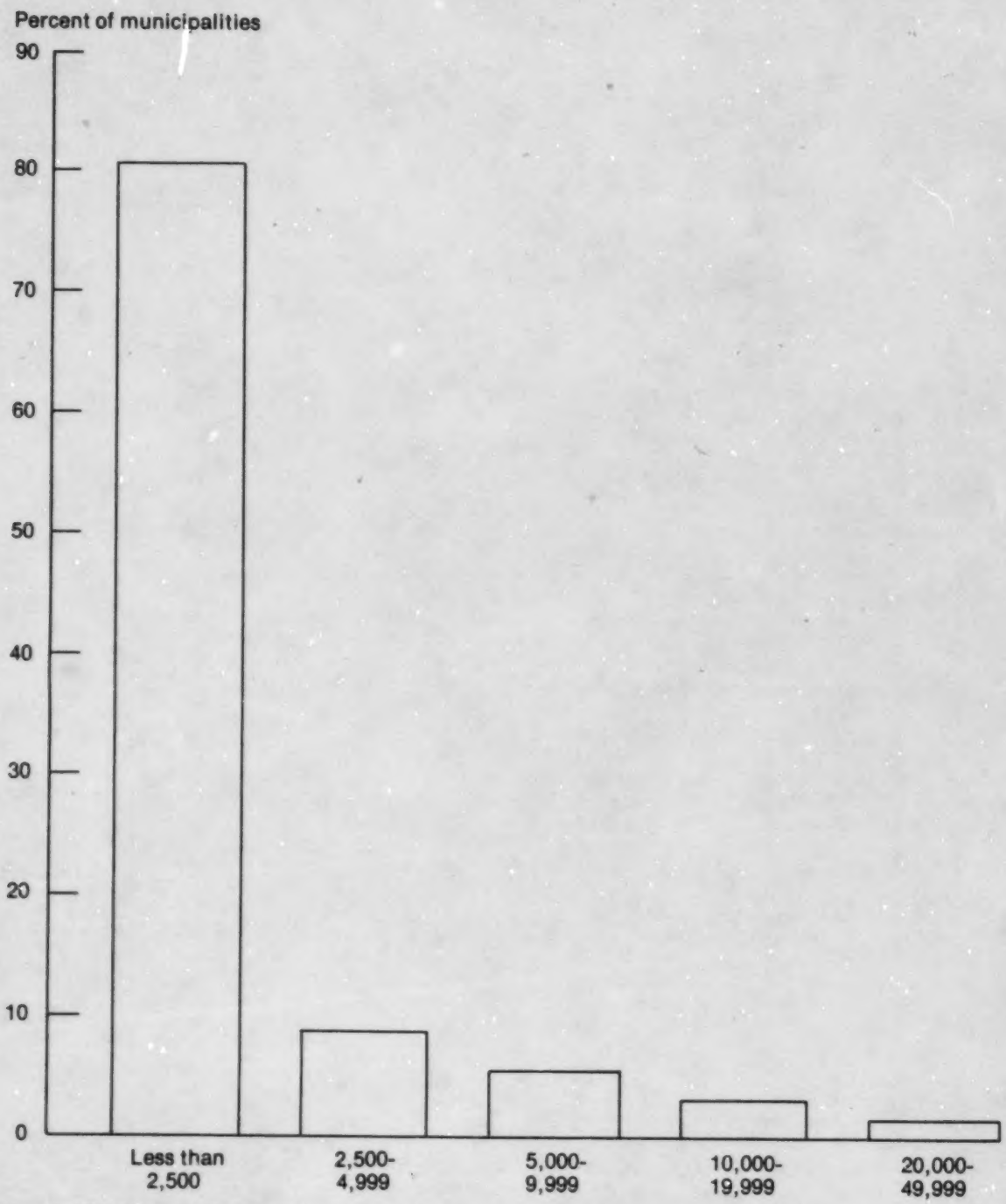
Government finance: Rural governments receive a disproportionately small amount of government revenues; 23 percent of total government revenues or $404 per person. They also rely more heavily on State and Federal aid to finance local programs than do urban governments, but ironically in 1972 urban governments received more than twice as much direct Federal aid per capita as rural governments and also had higher per capita receipts from State aid. In recent years, both urban and rural governments have become more dependent on outside funds to finance their operations. Thus, it is increasingly important that local governments, both urban and rural, be able to access State and Federal programs which provide intergovernmental aid.

Per capita local government expenditures are often used as a rough indicator of the levels of community services available in an area. These figures must be used cautiously, however, since the prices of inputs, quality of service, level of efficiency, and relative roles of State and local governments vary considerably from one area to another, and among the various functions.

In 1972, the level of per capita local government expenditures in metro counties averaged 1-1/2 times the level in nonmetro counties. Spending for most individual functions was also higher in urban areas. (See Figure 9) More important, the gap in spending levels between metro and nonmetro areas is widening. In 1957, rural governments spent 86 percent as much per capita as urban governments; in 1967, they spent 74 percent as much, and in 1972, they only spent 69 percent as much. These urban-rural differences in expenditures, and the higher unit cost of providing services in small areas, imply a more limited range and quality of services is available in rural areas, and that their relative position is becoming worse. Rural government services tend to be dominated by traditional functions such as police protection and roads, with less activity in planning, parks and recreation, environmental control, and data processing. This is particularly so in the many small rural governments where per capita revenues and expenditures are substantially less than in the few larger rural governments.

Figure 7

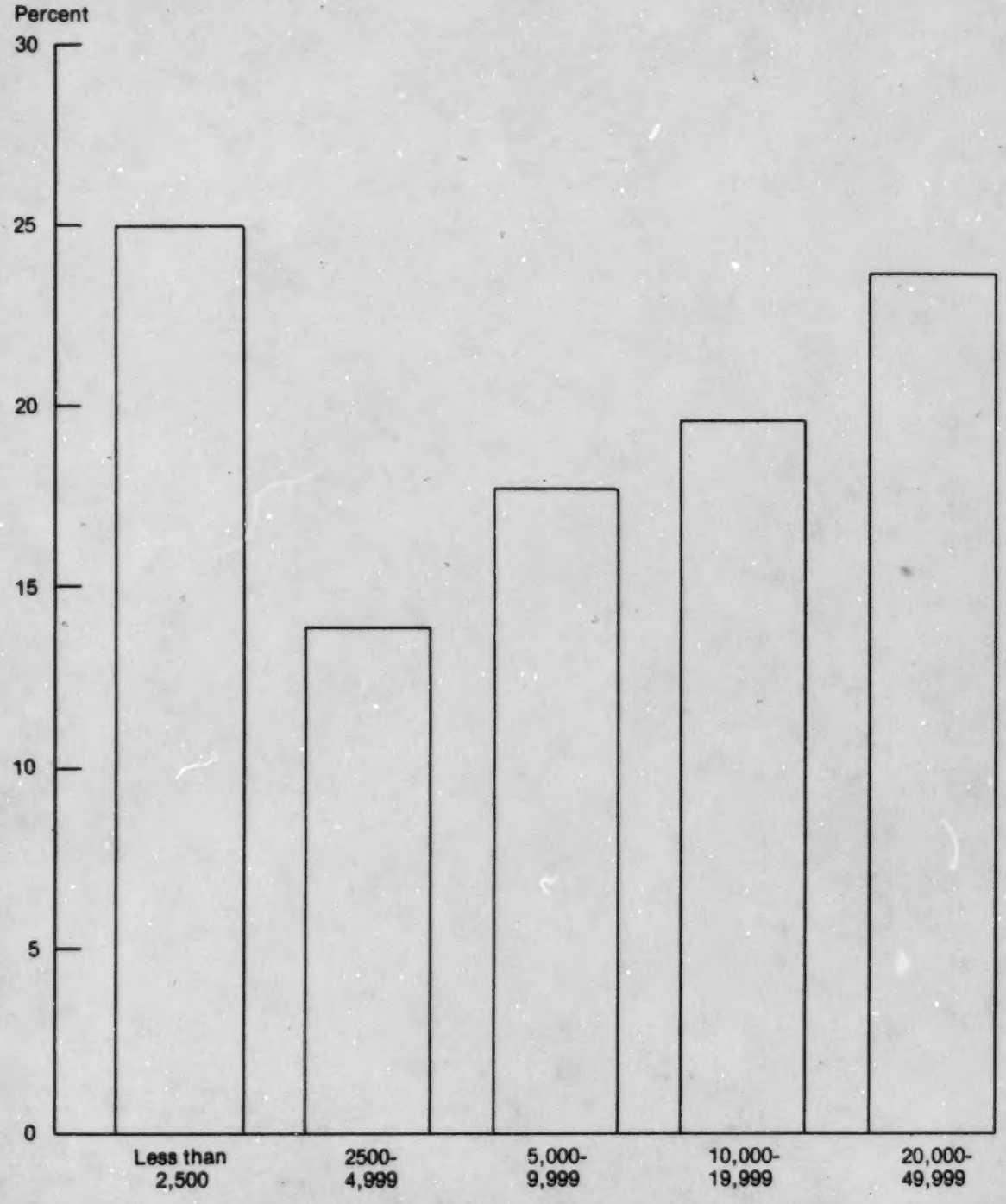
Distribution of Nonmetro Municipal Governments by Size of Population Served, 1972



Source: 1972 Census of Governments.

Figure 8

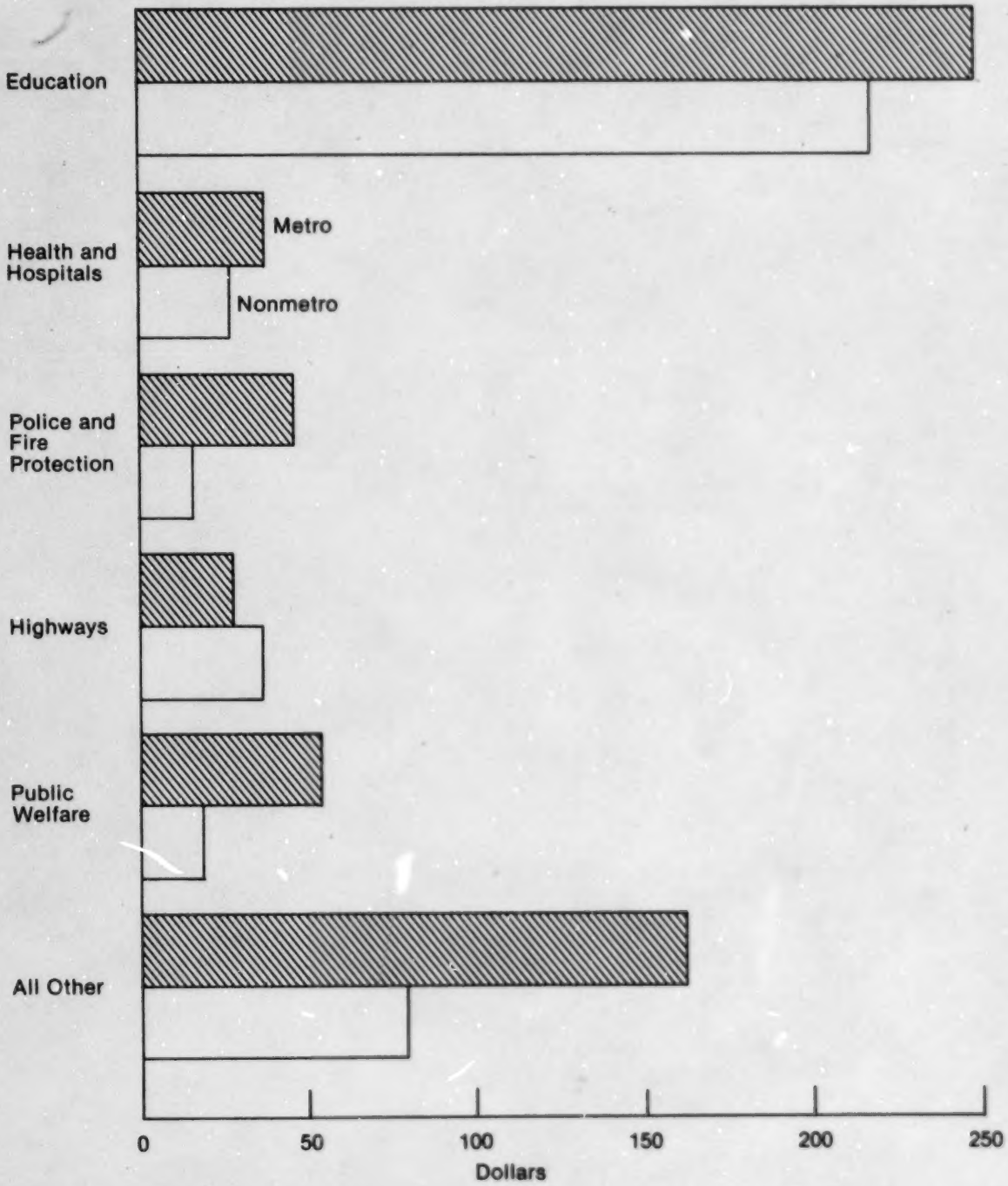
Percent of Nonmetro Population Contained in Municipalities by Size, 1972



Not all nonmetro persons live in municipalities. Source: 1972 Census of Governments.

Figure 9

Per Capita General Expenditure of Local Governments, By Function, 1971-72



Source: 1972 Census of Governments.

For example, in 1972, municipalities of less than 2,500 population spent $106 per capita compared with $224 in cities of 10,000 to 20,000.

Internal organization: Policymaking in rural governments is essentially a function of elected governing boards--city village councils, town and township boards, county commissions or boards of supervisors, etc. Generally absent in the small communities are strong elected executives and hired professional managers such as big city mayors, metropolitan county executives, and city managers who combine political and policy leadership with control over administrative resources. Most public administration analysts consider the board form of government organization as relatively weak, ineffective and rigid.

Rural governments are not apt to be innovators, nor are they likely to become involved in change-oriented activities. Moreover, small rural governments are typically run by part-time officials who are often unprepared to deal with the technical and organizational aspects of their responsibilities.

As a result, these communities are often characterized by informal and haphazard budgeting, accounting, and financial reporting, lack of competitive purchasing, absence of any regularized merit system, and a preponderence of part-time or unpaid employees. This problem is especially serious in communities which are undergoing significant, often unexpected change.

Political and administrative style: Another important difference between urban and rural governments is their political and administrative style. Public officials in rural areas are very much products of their communities and are very sensitive to local values and expectations. Local government is expected to be simple, informal, accessible, and conserving of existing local values. Governing boards carry out the general goal of avoiding serious political conflict by maintaining decision styles that emphasize consensus. This entails a commitment to unanimity at virtually any cost, which often results in defense of the status quo. Thus, regardless of fiscal capacity and access to other resources, on the whole, rural governments are probably less likely to become involved in activities to bring about or accommodate change, because such activity lacks local political support.

Policy Implications

This discussion suggests that understanding the relationship between economic and political feasibility and the qualitative and quantitative capacity of local governments is a key to understanding the actions of rural governments. It sets the community context within which local governments operate, and with which Federal programs for capacity building must deal. In particular, it indicates an important role for citizen's groups, private nonprofit organizations, multicounty substate districts, and the States if Federal rural policy objectives are to be met. It also suggests that local delivery systems--including such technical assistance as is provided by county agents, etc.--are likely to be important for Federal rural programs.

The role of the States is crucial because all local governments are created by the States in which they exist, and therefore, it is impossible to understand their actions without considering the statutes or constitutional provisions which define their powers.

VI. FEDERAL SPENDING IN RURAL AMERICA; FY '76 2/

In Fiscal Year 1976, Federal spending totaled $401.9 billion, the highest level in the Nation's history. The Federal budget's growing importance has attracted closer scrutiny as to how and where Federal dollars are being spent. Comparing the level of Federal spending received by metro and nonmetro areas is an important first step in evaluating program equity. For analytical purposes, non-defense spending was grouped into four program categories--targeted economic development, public and private infrastructure, human capital, and transfer payments. The metro-nonmetro distribution of Federal spending in each of these categories is displayed in Figure 10 and a discussion of each category follows.

Targeted Economic Development

In FY '76, the Federal Government spent $9.7 billion for targeted economic development and Indian programs. About one-third of expenditures in this category went to nonmetro counties ($3.3 billion). As the category title suggests, the Federal government maintains a substantial amount of discretion as to where, and for what, these programs are used. In general, however, they are targeted to economically depressed or otherwise lagging communities for the improvement and development of business and industry and for the enlargement, extension, or improvement of community facilities.

The types of assistance vary among the programs, with direct loans and/or loan guarantees being of primary importance in some, and grants in others. Specific criteria used to evaluate applications for assistance also vary by program. For example, the Economic Development Administration is particularly interested in job creation while Farmers Home Administration is primarily concerned with the provision of essential goods and services in rural communities, regardless of the number of jobs developed.

In 1976, over $800 million was spent in nonmetropolitan counties for programs targeted to the Indian population. This is the largest amount spent by any program in the category. It includes all activities targeted specifically to Indians--health, education, jobs, etc.--and, therefore, is not directly comparable to the other development programs. However, Indians are eligible for other programs not specifically targeted to them, so the total of Federal spending on Indian problems is larger than $800 million.

The Farmers Home Administration (FmHA) and the Small Business Administration (SBA) were the two largest non-Indian economic development programs in nonmetro counties. FmHA community development programs (community facilities) were especially important, accounting for $527 million of FmHA's total expenditures. The FmHA Business and Industrial Loan Program accounted for the remaining $190 million. 3/ Next in importance was the Tennessee Valley Authority (TVA) and Department of Housing and Urban Development, Community Development Block Grants with outlays of $365 million and $233 million, respectively. 4/ The Appalachian

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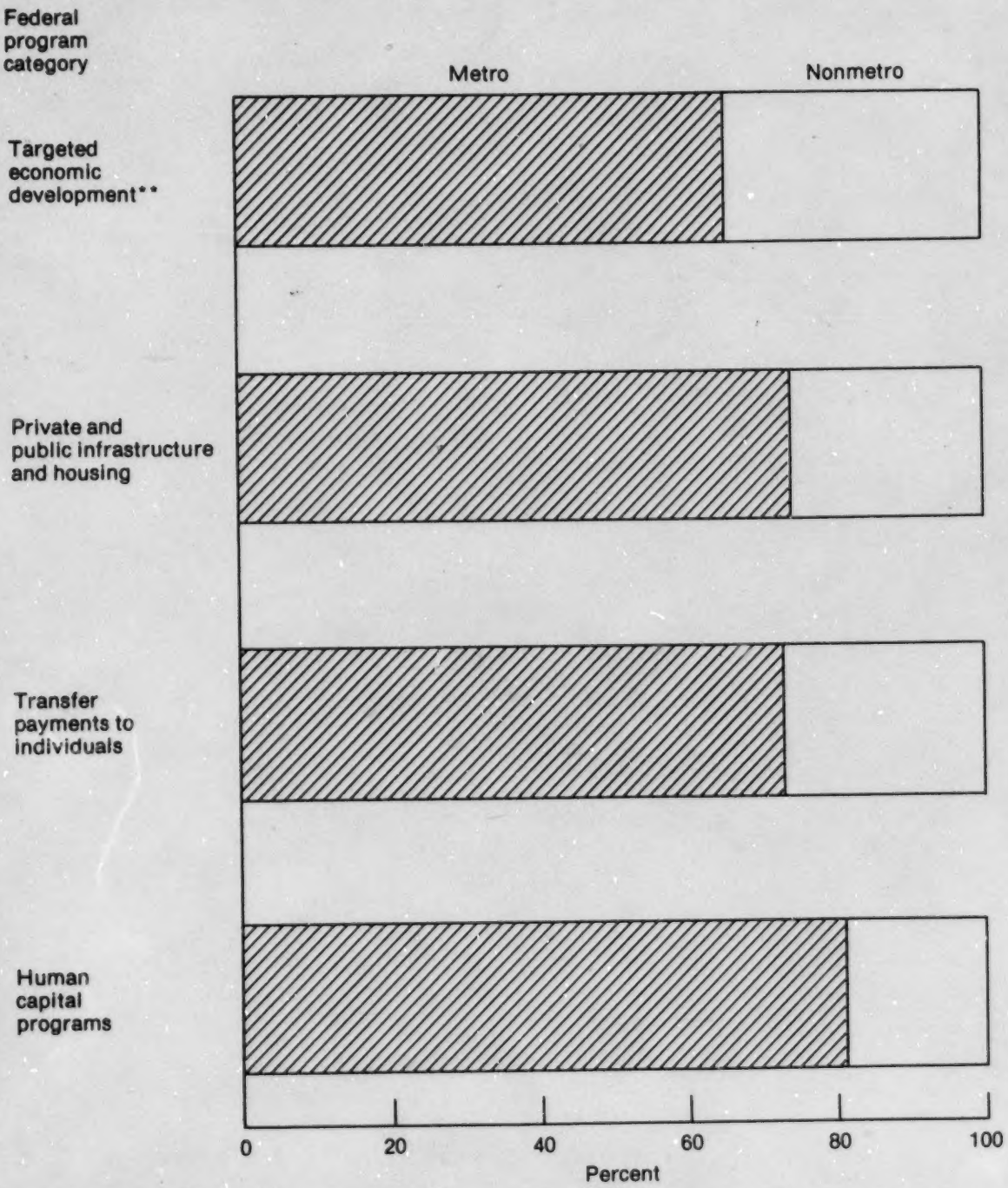
2/ Only non-defense spending is discussed in this section.

3/ Since FY '76, the importance of FmHA's Business and Industry program has increased greatly. By FY '78, B&I program outlays were running $1 billion annually.

4/ Discretionary grants are not included in the Federal outlays data. They would markedly improve the nonmetro outlays from this HUD program.

Figure 10

Metro — Nonmetro Distribution of Federal Spending, 1976*



*Does not include outlays for defense. **Includes Indians. Source: Community Services Administration.

Regional Commission (ARC), especially its highway program and the Economic Development Administration (EDA) were next with about $170 million each. Interestingly, in 1976, over one-half of EDA's expenditures were in nonmetropolitan areas, but this accounted for only 5 percent of targeted economic development assistance taking place outside of SMSA's. The EDA expenditure ($166 million) was only about one-quarter as large as that of FmHA or SBA.

The final two programs of consequence classified in this category were the Cooperative Extension Service and the Community Service Administration (CSA). 5/

Public and Private Infrastructure

Public and private infrastructure accounted for $35.6 billion in Federal spending during FY 1976. In general, these programs go to communities, and the government has considerable discretion where activity should take place. The typical project results in an addition to the community's capital stock. Hence, they are likely to have a relatively lasting impact on the community's viability as a place to live and work. Housing, transportation, communication, conservation and community facilities account for a majority of projects in this category. Similar to targeted economic development, programs vary in the type of assistance offered--grants, loans, loan guarantees. Some programs, such as the National Park Service, are operated by the Federal Government and affect, but do not directly involve the local community.

About one-quarter of expenditures for public and private infrastructure went to nonmetropolitan counties--$9.3 billion. Housing was the largest program, accounting for over one-third of all nonmetro outlays. The Farmers Home Administration (FmHA) and the Veterans Administration (VA) made up the lion's share. In contrast, only 16 percent of expenditures for rural housing were from the Department of Housing and Urban Development (HUD). Transportation and electric power were the largest non-housing infrastructure programs. The transportation category is heavily weighted by road and highway construction, but includes rail, water and air facilities programs as well. Transportation ($1.9 billion) and electrification ($1.6 billion) each accounted for about 20 percent of FY '76 nonmetro expenditures for infrastructure. Environmental protection ($840 million) were the next largest programs followed by telephones and parks and recreation.

Human Capital

In FY '76, the Federal Government spent $25 billion on human capital programs. This category includes a wide variety of education, health, manpower and training activities. About 20 percent of human capital expenditures were in nonmetropolitan areas. The Federal Government has some discretion in locating these types of program activities, but not nearly as much as in the case of targeted economic development and public and private infrastructure. These programs provide services rather than "hard" capital products. Skills, learning, work attitudes and health are the outcomes of these programs, not buildings, industrial parks and roads. The long-term economic effects of human capital programs in the local community may be less than from the hard programs

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5/ Cooperative Extension funds are distributed to the States by formula, unrelated to economic development condition or need. However, many of the programs undertaken by Extension are important to local development. Thus, the decision was made to classify Extension in "targeted" economic development.

since physical capital is fixed and population may be mobile. The types of assistance provided include loans to individuals and grants. Much of the local expenditure for human capital programs is for the actual operation of programs.

The nonmetro share of Federal spending for human capital programs was disproportionately small; only 20 percent of expenditures in this category were in nonmetro counties. Paradoxically, many long-term nonmetro problems are essentially issues of human resource development--poor health, underemployment, inadequate education, and inappropriate job skills, etc. A more equitable distribution of spending for health, education, and manpower programs might help to alleviate some of these rural problems.

Educational programs accounted for almost 60 percent of human capital expenditures in nonmetropolitan areas during FY 1976. This category includes $1.25 billion in Veterans' programs and about $1.5 billion in programs from other agencies, especially the Department of Health, Education and Welfare (HEW). Health and manpower programs each accounted for about one-sixth of human capital expenditures in nonmetropolitan areas. The health category includes such diverse functions as comprehensive health planning, rehabilitation, training health professionals and constructing health facilities. The manpower category includes the Comprehensive Employment and Training Administration (CETA), Job Opportunities and Job Corps and vocational training. A small amount of money ($11 million) was expended for cultural programs in nonmetro areas.

Transfer Payments

Transfer payments to individuals and households accounted for $136 billion in Federal spending during FY 1976. The government has no discretion over the geographic distribution of these funds. Assistance is targeted to eligible persons regardless of location. About a quarter (27 percent) of transfer payments were to individuals living in nonmetro counties.

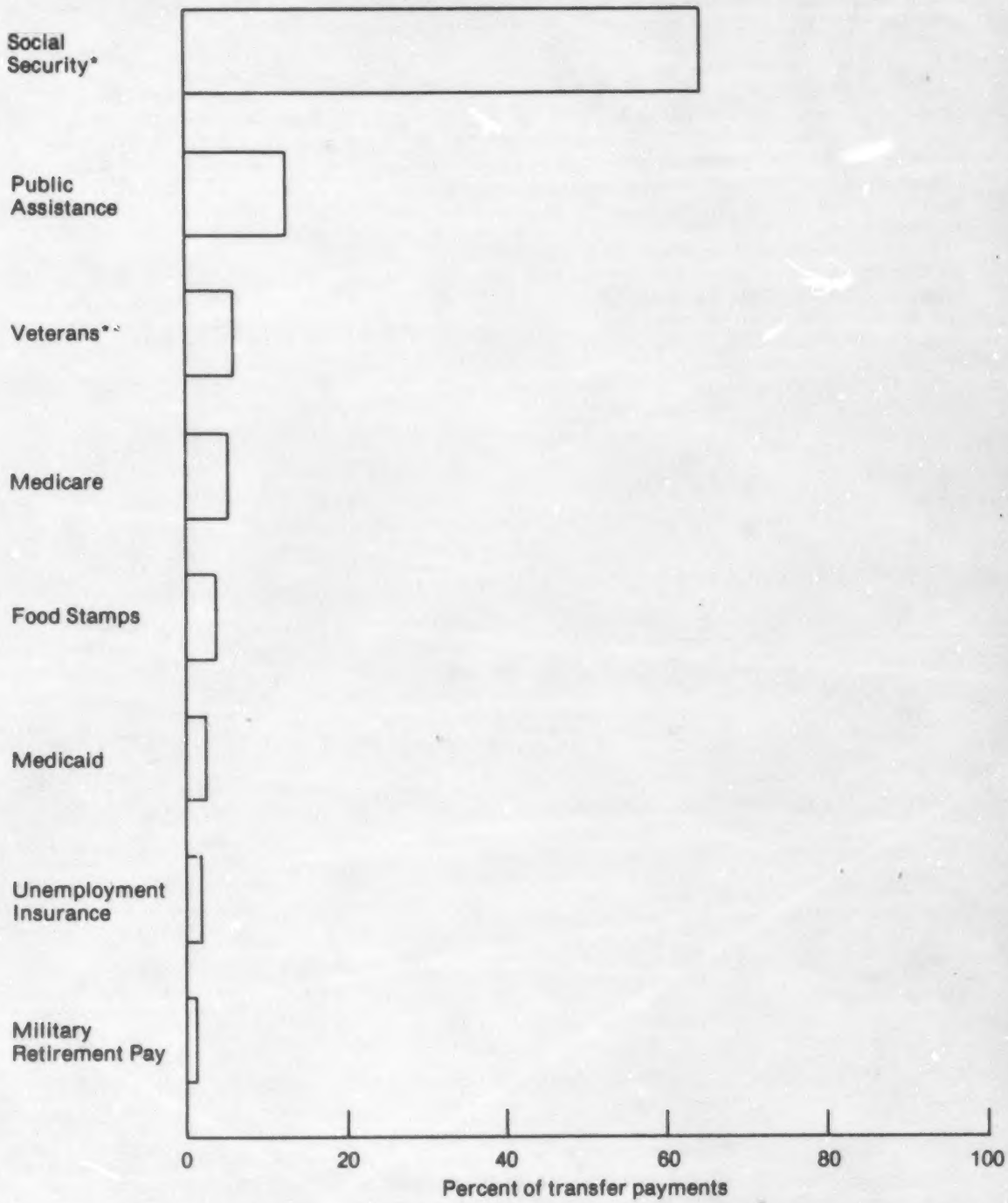
Social security retirement and disability was the largest component of the transfer payment package in nonmetro areas. (See Figure 11) It totaled $24 billion in FY '76 or 65 percent of all transfer payments to nonmetro persons. Retirement and survivors benefits made up the lion's share of the social security package. Public assistance was the second largest category of transfer payments to nonmetro persons, but it was only 20 percent as large as outlays for social security ($4.6 billion vs $24 billion). Also, the nonmetro share of public assistance outlays was disproportionately small compared with the nonmetro share of poor people (28 percent of outlays vs 34 percent of the poor). Veterans disability, pensions and insurance and Medicare were the next largest categories of transfer payments--6 and 5 percent, respectively. Military retirement, Medicaid and Unemployment Insurance also provided significant assistance to nonmetro persons.

Policy Implications

Comparisons of Federal expenditures involve a number of other factors which help to determine equity--an area's need for services (often determined by the characteristics of its population or by access to various services and facilities), its ability to shoulder its own financial burdens, and local variations in the cost of providing services. In addition, comparisons between areas are difficult because all expenditures do not yield comparable benefits within a community and the local effects of Federal spending may vary considerably from one community to another. Nevertheless, gross inequity is not indicated by the metropolitan-nonmetropolitan distribution of Federal outlays.

Figure 11

Composition of Transfer Payment Federal Outlays in Nonmetro Counties, 1976



*Retirement and disability. **Disability, pensions, and insurance. Source: Community Services Administration.

On the basis of FY '76 outlays, rural areas do receive less than a pro rata share of one major category of spending--human resources. Since rural areas contain more than their share of human resource problems, this finding raises some questions about the equity of current Federal health, education, and manpower programs. More detailed study is needed to determine if there is a systematic urban bias in these programs; and if there is, how it might be overcome.

It may also be true that the smallest rural places, or the poorest rural people are not effectively reached by Federal rural programs. However, we know of no detailed, current program evaluation data that would allow a definitive judgment on this issue. There is evidence in the Federal outlay data itself that certain individual programs are less well-distributed between urban and rural places than the more highly aggregated categories. For example, the nonmetropolitan share of public assistance appears disproportionately small compared with the nonmetro share of the poverty population (28 percent and 34 percent, respectively). In part, this stems from the differential characteristics of the metropolitan and nonmetropolitan poor. Specifically, a relatively larger proportion of poor families in nonmetro areas are headed by males and include at least one full-time worker--characteristics that disqualify them from certain welfare programs such as AFDC.